

Total Compensation Recommendation

Mike Gwartney

Director, Department of Administration



Comparison of Appropriation and Resulting Reserve Drawdown

Actual Appropriation	FY 2006	FY 2007	FY 2008	
Medical	\$ 6,920.16	\$ 6,920.16	\$ 6,920.16	
Dental	\$ 204.96	\$ 204.96	\$ 204.96	
Total Appropriation	\$ 7,125.12	\$ 7,125.12	\$ 7,125.12	
# of Active Employees	18,400	19,035	19,347	
Total Appropriation (Medical Only)	\$ 127,330,944	\$ 131,725,246	\$ 133,884,336	

Needed Appropriation	FY 2006	FY 2007	FY 2008	Budget FY 2009
Medical	\$ 6,920.12	\$ 7,131.25	\$ 8,126.18	\$ 8,960.88
Dental	\$ 204.96	\$ 204.96	\$ 219.31	\$ 239.00
Total Needed Appropriation	\$ 7,125.12	\$ 7,336.21	\$ 8,345.49	\$ 9,199.88
# of Active Employees	18,400	19,035	19,347	19,347

Difference Actual to Needed		\$ 211.09	\$ 1,220.37	
Total Needed Appropriation (Medical Only)	\$ 127,330,944	\$ 135,743,289	\$ 157,217,206	
Reserve Depletion – Retirees		\$ 5,810,000	\$ 8,240,000	
Reserve Depletion – Actives		\$ 2,260,000	\$ 22,780,000	
Total Approximate Reserve Drawdown		\$ 8,070,000	\$ 31,020,000	



Medical Reserve Summary

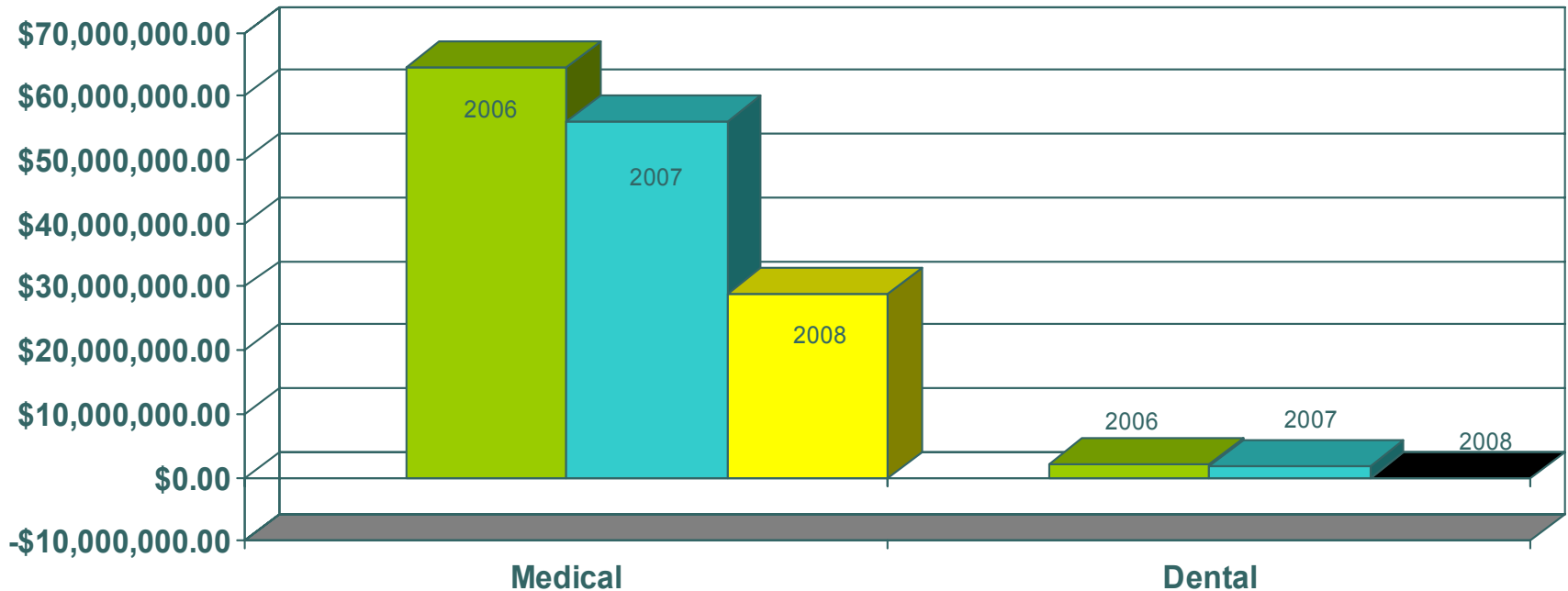
Beginning 2008 Balance	\$ 55,866,801
Premium Shortfall	\$ (31,020,000)
2008 Reserve Build-up	<u>\$ 3,548,311</u>
Expected Ending Balance	\$ 28,395,679

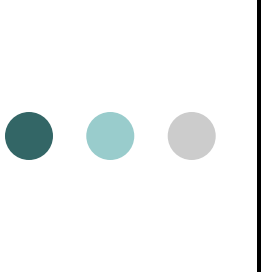
2009 Required Reserves

Blue Cross PSR	\$ 18,800,000
Actuarial Reserve	<u>\$ 22,000,000</u>
Total 2009 Medical Reserves	\$ 40,800,000
Less Expected '08 Ending Balance	\$ (28,395,697)
Reserve Deficit	\$ 12,404,303

Change in Medical and Dental Reserve Balances

	2006	2007	2008
Medical	\$64,617,690	\$55,866,801	\$28,999,311
Dental	\$ 2,155,492	\$ 1,921,844	(\$ 27,165)





If Changes to the Active and Retiree Plans are Implemented

Reconciliation of FY 2009 Appropriation Request

Active Employee Base Medical	\$ 8,344.45
Reserve Funding	\$ 297.72
Dental	<u>\$ 239.31</u>
Total	\$ 8,881.48
Retiree Subsidy	<u>\$ 318.40</u>
Total	\$ 9,199.88



Total Compensation Philosophy

- The State's overall compensation system, which includes both a salary and a benefit component, when taken as a whole shall be competitive with relevant labor market averages.
 - Idaho State Statute 67-5309A



Total Compensation

- **Salary** – Cash compensation is significantly behind the market.
- **Health and Insurance Benefits** – State employees benefit from a generous insurance plan with the state spending \$172 million annually on behalf of employees.
- **Retiree Benefits** – Retiree medical benefit is a pay as you go system with no recognition of the State's liability. The state's current liability for OPEB is \$442 million.
- **Pension** – The PERSI benefit was found to be significantly richer than the retirement plans in the private sector.



Surveyed Companies

- Albertsons
- Blue Cross
- Boise Company
- Idaho Power
- Micron
- Regence Blue Shield
- Simplot
- WGI



Comparing Against Other Employers

- A simple comparison of plan design elements does not give an accurate comparison of plan costs.
- Comparing the percentage of premiums paid by the employer and by the employee does not take into account deductibles, co-insurance, co-payments or other possible plan design elements.
- Most major employers are targeting paying 70% of covered charges.
 - When compared to premiums, a broad generalization is that premium sharing of 80% employer paid and 20% employee paid is roughly equal to 70% / 30% sharing of covered charges.
- The state is currently paying about 92% of premiums and 78% of covered charges.



Department of Labor Survey

- The Idaho Dept. of Labor surveyed over 1100 Idaho employers. Of those surveyed:
 - Only 63% offer medical benefits to full time employees
 - Only 9% offer benefits to part-time employees
- Employers pay a higher portion of the premium for full time employees
- Over 50% of employers do not offer any kind of retirement benefit
- 80% of private firms and 72% of local government firms offer NO retirement benefits to part time employees



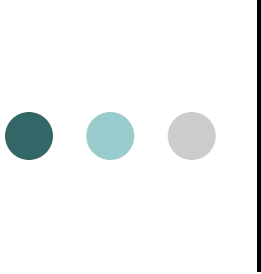
Dept. of Labor Survey Summary

Benefit	Full Time	Part Time
Insurance		
Single Medical	63%	9%
Single Dental	45%	9%
Family Medical	57%	8%
Family Dental	43%	8%
Leave		
Paid Undesignated Leave	22%	8%
Paid Vacation Leave	70%	21%
Paid Sick Leave	48%	13%
Paid Holiday Leave	67%	24%
Retirement		
Defined Contribution	43%	17%
Defined Benefit	16%	7%
None Offered	51%	79%



Comparison of Aggregate Salary Increases to Aggregate Employee Medical Contribution Increases

Fiscal Year	5% Aggregate Salary Increase	Current Employee Medical Contributions	Projected Medical Premium Increase	Aggregate Net Salary Increase	Net Increase by Percent
2007	-	\$ 10,803,000	-	-	
2008	\$ 34,608,380	\$ 10,803,000	-	\$ 34,608,380	100%
2009	\$ 36,338,799	\$ 17,451,000	\$ 6,648,000	\$ 29,690,799	82%
2010	\$ 38,155,739	\$ 22,370,520	\$ 4,919,520	\$ 33,236,219	87%
2011	\$ 40,063,526	\$ 28,735,980	\$ 6,365,460	\$ 33,698,066	84%
2012	\$ 42,066,702	\$ 35,350,740	\$ 6,614,760	\$ 35,451,942	84%
2013	\$ 44,170,037	\$ 42,597,060	\$ 7,246,320	\$ 36,923,717	84%
Totals	\$235,403,183		\$ 31,794,060	\$203,609,123	86%



Comparison of the Average Employees Pay and Medical Share Increases

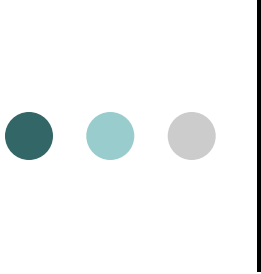
Fiscal Year	Average Employee Pay Increase	Employee Medical Contributions	Medical Premium Increase	Net Salary Increase	Net Increase Percent
2007		\$ 650			
2008	\$ 2,186	\$ 650		\$ 2,186	100%
2009	\$ 2,296	\$ 1,050	\$ 400	\$ 1,896	77%
2010	\$ 2,411	\$ 1,346	\$ 296	\$ 2,115	88%
2011	\$ 2,531	\$ 1,729	\$ 383	\$ 2,148	85%
2012	\$ 2,658	\$ 2,127	\$ 398	\$ 2,260	85%
2013	\$ 2,791	\$ 2,563	\$ 436	\$ 2,355	84%
Totals	\$ 14,872		\$ 1,913	\$ 12,960	87%

Average Salary as of 9/30/07 \$ 43,729

of Full-Time Benefits Eligible Employees 16,620

Gross Annual Salaries for FY 2008 \$726,775,980

Est. FY 2007 Average Salary (5% less than 06) \$ 41,647



Example of Measuring Premiums and Total Covered Charges

Claims Submitted and Eligible for Payment	
Submitted Eligible Charges	\$ 156,000,000
Administration and Premium Tax	\$ 9,010,000
Total Covered Charges	\$ 165,010,000

Plan Receipts	
Employee Deductibles, Co-Pays, Etc.	\$ 25, 000,000
Employee Premiums	\$ 11,500,000
State Premiums	\$ 128,510,000
Total Contributions to the Plan	\$ 165,010,000

Total Premiums	\$ 140,010,000
State Share	92%

Total Covered Charges	\$165,010,000
State Share	78%

Approximate Effect of Pay and Medical Increases at \$20k Salary Intervals

Costs Allocated as the Same Dollar Amount to Each Employee

FY 2009 Average Salary	Pay Increase from 2008	Medical Increase from 2008	FY 2008 Average Employee Plan Contribution	FY 2009 Average Employee Plan Contribution	Medical Increase as % of Pay Increase
20K	\$ 952	\$ 400	\$ 650	\$ 1,050	42%
40K	\$ 1,905	\$ 400	\$ 650	\$ 1,050	21%
60K	\$ 2,857	\$ 400	\$ 650	\$ 1,050	14%
80K	\$ 3,810	\$ 400	\$ 650	\$ 1,050	11%

Alternate Plan Allocating the Costs as a Uniform % to Employees of the Average Pay Increase

FY 2009 Average Salary	Pay Increase from 2008	Medical Increase from 2008	FY 2008 Average Employee Plan Contribution	FY 2009 Average Employee Plan Contribution	Medical Increase as % of Pay Increase
20K	\$ 952	\$ 209	\$ 650	\$ 859	23%
40K	\$ 1,905	\$ 419	\$ 650	\$ 1,069	23%
60K	\$ 2,857	\$ 629	\$ 650	\$ 1,279	23%
80K	\$ 3,810	\$ 838	\$ 650	\$ 1,488	23%



Moderating the Impact on Employees

- Alternative benefit plan that employees could select to keep their contributions “as is”.
- Charge all employees roughly the same % of salary INCREASE.
 - Otherwise the lowest paid employees will pay about 42% of their pay increase to the plan while higher paid employees will pay about 11% or less of their increase in plan contributions.
- Charge a greater share of premiums to those with dependent coverage
- Continue to develop wellness initiatives.



High Deductible Alternative Plan

Current Plan	
Deductibles	
○ Individual	\$ 250
○ Family	\$ 750
Co-Insurance	85% (in network)
Office Visit Co-Pays	\$ 20
Prescription	\$10 / \$18 / \$40 1 Co-Pay 30 Days 2 Co-Pays 31-90 Days
This plan will require an <u>approximate</u> annual average employee contribution of \$1,050 in FY 2009	

Alternate Plan	
Deductibles	
○ Individual	\$1,000
○ Family	\$3,000
Co-Insurance	80% (in network)
Office Visit Co-Pays	\$ 30
Prescription	\$10 / \$18 / \$40
This plan would require the <u>existing</u> approximate annual average employee contribution of \$650 in FY 2009	



Comparison of University of Idaho and State of Idaho Prospective Rates

	Employee Only	Employee and Spouse	Employee and Child	Employee and Children	Family
U of I Medical Plan A (Calendar Year 2008 Rates)	\$ 52	\$136	\$191	\$278	\$507
U of I Medical Plan B (Calendar Year 2008 Rates)	\$ 179	\$195	\$362	\$514	\$854
U of I High Deduction Plan* (Calendar Year 2008 Rates)	\$ (10)	\$121	\$ 76	\$111	\$169
State of Idaho PPO**	\$ 53	\$105	\$ 67	\$93	\$149

* Plan had \$1,500 deductible with a contribution to Health Savings Account, based on matching

** Rate estimates for fiscal year 2009



Part-Time Employees

- Change the eligibility requirements and State subsidy for part-time employees
 - Employees working 87.5% of a 2080 hour work year would be considered full time.
 - Employees working 75% to 87.5% would be charged the full proportionate cost of coverage.
 - If single coverage cost is \$500 per month, a 75% employee would pay \$375.
 - Employees working less than 75% of full time (30 hours per week) would be ineligible for benefits.



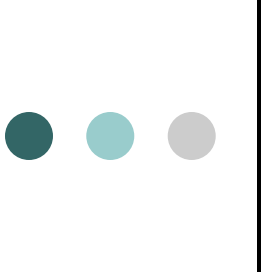
Retiree Plan Issues

- Currently retiree paid premiums only cover about 78% of the retiree plan costs. Active employees and the state pay the remaining 22%.
- Beginning with FY 2008, the state will be required by the Governmental Accounting Standards Board (GASB) to disclose any unfunded liabilities resulting from retiree benefit plans other than pensions.
- The State of Idaho commissioned Milliman, Inc. to estimate this liability. The results are as follows:



GASB 45 Projected Liabilities and Cash Contributions

GASB 45 Projected Liabilities and Cash Contributions (In Millions of Dollars)				
	Following Current Practices		With Recommended Changes	
FY Ending	Accrued Unfunded Liability	Total Annual Cash Expense	Accrued Unfunded Liability	Total Annual Cash Expense
6/30/2007	\$ 408.6	\$ 8.9	\$ 188.5	\$ 8.9
6/30/2008	\$ 442.3	\$ 11.3	\$ 196.5	\$ 11.3
6/30/2009	\$ 477.5	\$ 13.3	\$ 202.4	\$ 11.8
6/30/2010	\$ 514.9	\$ 15.0	\$ 208.1	\$ 12.2
6/30/2011	\$ 555.1	\$ 17.0	\$ 213.7	\$ 12.9
6/30/2012	\$ 598.0	\$ 19.0	\$ 218.8	\$ 13.5
6/30/2013	\$ 643.8	\$ 20.9	\$ 223.6	\$ 14.0
6/30/2014	\$ 692.8	\$ 22.9	\$ 228.1	\$ 14.6
6/30/2015	\$ 745.0	\$ 24.7	\$ 232.2	\$ 14.9
6/30/2016	\$ 800.8	\$ 26.6	\$ 236.2	\$ 15.3



Retiree Medical Plan Recommendations

- Freeze the current subsidy at the level it would have risen to in FY 2009 had contributions by retirees, employees and the state continued in accordance with past practice.
 - This would be done on a per retiree basis, not based on a specified amount per active employee.
- The plan will not cover Medicare eligible retirees
- To be eligible for coverage under the plan the non-Medicare eligible retiree must retire directly from State service.
- Employees hired after 7/1/2008 would not be eligible for any retiree medical benefit.



State and Active Employee Subsidy to the Retiree Medical Plan

	FY 2006	FY 2007	FY 2008	FY 2009
Number of Active State Employees	18,400	19,305	19,347	19,347
Approximate Retiree Subsidies Resulting from Rate Freeze (per month)	\$ 18.00	\$ 25.44	\$ 35.49	\$ 37.22
Annual Retiree Subsidy (per retiree)	\$ 1,233	\$ 1,788	\$ 2,505	\$ 2,626
Total Subsidy (# of employees x annual subsidy)	\$ 3,974,400	\$ 5,810,000	\$ 8,240,000	\$ 8,640,000
Approximate Outcome if Retiree Rates Had Not Been Frozen	\$ 18.00	\$ 21.00	\$ 24.00	\$ 26.53
Annual Retiree Subsidy (per retiree)	\$ 1,223	\$ 1,476	\$ 1,694	\$ 1,872
Total Subsidy (# of employees x annual subsidy)	\$ 3,974,400	\$ 4,796,820	\$ 5,571,936	\$ 6,160,000

The existence and amount of the retiree medical subsidy creates an ongoing liability under GASB 45.



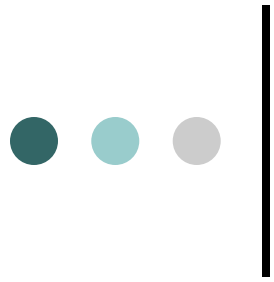
Comparison of Retiree Rates and Subsidies

	FY 2008*	State Subsidy FY 2008**	FY 2009 Projected***	State Subsidy FY 2009
Single Retiree w/o Medicare	\$ 393	\$ 209	\$ 515	\$ 156
Retiree and Spouse w/o Medicare	\$ 697	\$ 209	\$ 913	\$ 156
Single Retiree w/ Medicare	\$ 190	\$ 209	\$ 249	\$ 156
Retiree and Spouse w/ Medicare	\$ 368	\$ 209	\$ 482	\$ 156

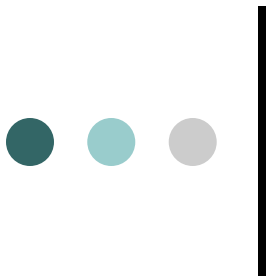
* Rates frozen at FY 2006 levels

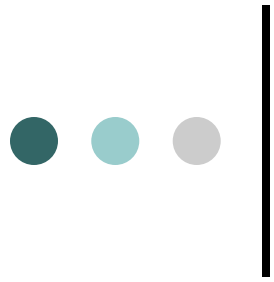
** Higher FY 2008 Subsidy is due to retiree premium freeze.

*** Assumes needed 31% rate increase



Questions





Support Slides



State and Active Employee Subsidy To The Retiree Medical Plan

	Fiscal Years			
	2006	2007	2008	2009
Approximate Retiree Subsidies Resulting from Rate Freeze	\$ 18	\$ 25	\$ 35	\$ 37
Approximate Outcome if Retiree Rates Had Not Been Frozen	\$ 18	\$ 21	\$ 24	\$ 27
Note: The existence and amount of the retiree medical subsidy creates a liability under GASB 45				



Summary of Surveyed Employer Medical Contributions

Employer	Summary of Contributions
State of Idaho	Employer pays 90% for employees and dependents
A	Employer pays 80%
B	Employer pays 90%
C	Employer pays 85 or 90% depending on Tier
D	Employer pays 85 or 90% depending on Tier
E	Employer pays 80% for employees and 75% for dependents *long term target of 70% of covered charges
F	Employer pays 90% for employees and 80% for dependents
G	Employer pays 80% of premium for employees and dependents
H	Sliding scale based on annual salary in 10K increments

Surveyed Companies

Albertsons

Blue Cross

Boise Company

Idaho Power

Micron

Idaho

Simplot

WGI